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AGENDA ITEM 11

TO: MEMBERS OF THE INVESTMENT COMMITTEE

I. SUBJECT: Policy Subcommittee Report

II. PROGRAM: Total Fund

III. RECOMMENDATION: CONSENT:

- a. Equity Policy - Revision of Domestic Enhanced Index – Internally Managed
- b. Miscellaneous Policies - Adoption of Glossary Terms – Credit Accommodation and Credit Enhancement

IV. ANALYSIS:

The Policy Subcommittee, at its February 10, 2006 meeting, recommended revisions to the Statement of Policy for Domestic Enhanced Index Strategy for approval to the Investment Committee. Attached is the black-lined version from the last adopted policy by the Investment Committee. The black-line uses strike-out to indicate deletions and double underline to indicate additions. Single underline does not indicate a change; rather, it indicates that the term is defined in the glossary.

In addition, the subcommittee recommended the adoption of definitions for the terms "credit accommodation" and "credit enhancement". The proposed definitions are attached.

- **Item 11a – Equity Policies**

Revision of Domestic Enhanced Index – Internally Managed

Revising this policy from Domestic to Global is intended to provide an overarching framework for internally managed enhanced equity strategies. As proposed, the policy will cover the new fundamentally-weighted strategy approved by the Investment Committee at its December 12, 2005 meeting, as well as the existing domestic enhanced index strategy.

- **Item 11b – Miscellaneous Policies**

Adoption of Glossary Terms – Credit Accommodation and Credit Enhancement.

These terms were adopted in order to distinguish the Real Estate Unit's use of the CalPERS guaranty on recourse debt and other credit accommodations from the use in the Fixed Income Unit. "Credit Accommodation" is the term associated with the Equity Real Estate Leverage policy and "Credit Enhancement" is associated with the Fixed Income Credit Enhancement policy.

V. STRATEGIC PLAN:

This item supports Goal VIII: Manage the risk and volatility of assets and liabilities to ensure sufficient funds are available, first, to pay benefits and second, to minimize and stabilize contributions.

VI. RESULTS/COSTS:

The results of this item will provide the System with enhanced efficiencies and ability to manage the overall portfolio.

Greg Hood
Division Chief

Anne Stausboll
Interim Chief Investment Officer